



Issue Date	August 31, 2010
Audit Report Number	2010-SE-1001

TO: Jack Peters, Director, Office of Community Planning and Development, Seattle, Region X, OAD

FROM: //signed//
Ronald J. Hosking, Regional Inspector General for Audit, Seattle, Region X, OAGA

SUBJECT: Washington State Did Not Disburse Its Homelessness Prevention and Rapid Re-Housing Funds in Accordance With Program Requirements

HIGHLIGHTS

What We Audited and Why

We audited Washington State Department of Commerce (State) because it was the largest recipient of the Homelessness Prevention and Rapid Re-Housing Program (HPRP) grant in Region 10. The State received more than \$11.1 million or 23.8 percent of the more than \$46.7 million awarded to Region 10. Our objective was to determine whether the State disbursed HPRP funding in accordance with American Recovery and Reinvestment Act of 2009 (Recovery Act) requirements.

What We Found

The State paid for HPRP services for ineligible participants and participants whose eligibility was not supported. One participant's income exceeded HUD's minimum income level requirement. Three other participants did not meet the State's or its subgrantee's more strict requirements. In addition, 88 of the 101

participant case files we reviewed at the five subgrantees visited did not include adequate documentation of participant eligibility.

The State also made a duplicate payment to one of its subgrantees for HPRP services. The subgrantee submitted invoices that included identical services for five participants in November and December 2009.

What We Recommend

We recommend that the State reimburse its HPRP \$3,435 from non-Federal funds for the ineligible participant whose income exceeded HUD's minimum income level requirement and either provide supporting documentation for the participants lacking adequate documentation or reimburse its program \$166,785 from non-Federal funds for those affected participants. We also recommend that the State determine and reimburse any amounts that have been spent since April 2010 for the ineligible or unsupported participants. Further, we recommend that the State develop and implement procedures to ensure that the subgrantees are verifying and documenting participant eligibility in accordance with the HPRP Notice.

We also recommend that the State reimburse its HPRP \$7,034 from non-Federal funds for the duplicate payment to its subgrantee. Additionally, we recommend that it develop and implement procedures to detect duplicate invoicing from its subgrantees to prevent duplicate payments.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the discussion draft of the audit report to the State on August 3, 2010, and requested its comments by August 18, 2010. The State provided its written comments on August 18, 2010. It generally disagreed with the findings and recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The Homelessness Prevention and Rapid Re-Housing Program (HPRP) is a new program under the U.S. Department of Housing and Urban Development's (HUD) Office of Community Planning Development. It was funded under the American Recovery and Reinvestment Act of 2009 (Recovery Act) on February 17, 2009. Congress has designated \$1.5 billion for communities to provide financial assistance and services to either prevent individuals and families from becoming homeless or help those who are experiencing homelessness to be quickly rehoused and stabilized. HPRP funding was distributed based on the formula used for the Emergency Shelter Grant program.

The purpose of HPRP is to provide homelessness prevention assistance to households that would otherwise become homeless, many due to the economic crisis, and to provide assistance to rapidly rehouse persons who are homeless as defined by Section 103 of the McKinney-Vento Homeless Assistance Act (42 U.S.C. (United States Code) 11302). HUD allows grantees the discretion to develop prevention and/or rapid rehousing programs that meet locally defined needs. At the same time, HUD expects that these resources will be targeted and prioritized to serve households that are most in need of this temporary assistance and more likely to achieve stable housing, whether subsidized or unsubsidized, outside HPRP after the program concludes.

Grantees should take this opportunity to develop strategies to identify eligible program participants, review existing models for prevention and rapid rehousing programs, and create a plan that uses all resources available through the Recovery Act to provide a comprehensive list of services to assist eligible program participants.

HUD's Region 10 received more than \$46.7 million or 3.13 percent of the nearly \$1.5 billion appropriated for HPRP. HUD awarded more than \$24.9 million to various entities throughout the State of Washington, of which almost 45 percent or more than \$11.1 million went to the Washington State Department of Commerce (State). The State was required by HPRP to distribute all of its grant funds, less a small administrative fee, to local governments and private nonprofits in Washington State.

The State awarded more than \$10.8 million to 28 local governments and private nonprofits beginning in August 2009. The subgrantees began spending the funds in September 2009, and the total HPRP funds spent as of March 10, 2010, were almost \$715,000 or about 6.5 percent of the total grant funds awarded to the subgrantees.

The objective of our review was to determine whether the State disbursed HPRP funding in accordance with Recovery Act requirements.

RESULTS OF AUDIT

Finding 1: The State Paid for Ineligible and Unsupported Participants

The State paid for HPRP services for ineligible participants and participants whose eligibility was not supported. This condition occurred because the State did not require its subgrantees to provide documentation showing that the participants were eligible. Consequently, it spent more than \$170,000 on ineligible participants and participants for whom eligibility was not supported. These funds could have been made available to other eligible participants.

Four Participants Were Not Eligible for the Program

The State paid for HPRP services for four ineligible participants

One participant's income level exceeded HUD's area median income requirement. This participant's household income of \$51,108 exceeded 50 percent of the county's area median income of \$48,900 for a six-member household. The income calculation used did not include the income of both of the adults in the household. The gross income calculation for both adults indicated on the provider screening tool was higher than the allowable area median income.

The other three participants did not meet the State's or its subgrantee's requirements, which were stricter than HUD's requirements. One participant's income did not meet the subgrantee's income level policy requirement to be at or below 30 percent of the county's area median income. This participant received \$562 in monthly benefits through Temporary Assistance to Needy Families and \$926 in monthly employment wages. Therefore, the participant's total annual income of \$17,859 exceeded the area median income for a three-member household of \$14,700 or the 30 percent of the area median income limit the subgrantee required other households to meet. However, the participant would have qualified under HUD's 50 percent of area median income level requirement.

Two other participants did not qualify under the two risk factors identified by the subgrantee and required by the State. For one participant, the case worker selected the severe housing cost burden risk factor. However, the participant's lease amount was \$700 per month, and the combined household income was \$2,089 per month. These amounts did not qualify as a severe housing cost burden risk factor since the lease amount was not greater than 50 percent of income for housing cost. Consequently, the file did not document that the participant qualified under both of the two State required risk factors. The other participant

had income of less than 50 percent of area median income, but the case file identified only one risk factor instead of the State required two. This participant would have qualified under HUD's requirements.

In addition, the above three participants' case files did not include the required documentation for HPRP eligibility. Consequently, we included these three participants with the participants whose eligibility was not supported in the section below and in appendix C.

Subgrantee Files Did Not Include Adequate Support for Eligibility

The State paid for HPRP services for 88 participants whose eligibility was not supported. Questioned files of all five subgrantees we visited did not include adequate documentation of participant eligibility. For example, 63 files reviewed did not include documentation of the case worker's assessment and verification of the participants' lack of other housing options, insufficient financial support, and/or lack of support networks.

Examples of other deficiencies included case files that lacked documentation to support the calculation of assistance provided and/or included a case manager signature where a third party should have signed to provide verification of homelessness. Other case files lacked adequate documentation of income verification or included incomplete financial documentation. Deficiencies also included files that did not demonstrate that physical inspections of the rental property were completed before the rental/lease agreements were signed (see appendix C for a full listing of deficiencies).

The State Did Not Review Eligibility Documentation

The State did not require its subgrantees to provide documentation showing that the participants were eligible. It only required the subgrantees to submit an invoice with backup documentation including a list of participants, the type of HPRP services, and the dollar amount of services provided. The State's substantial amendment to its consolidated action plan for 2008 stated, "On occasion, backup documentation for a random sampling of invoice charges will be reviewed to verify eligible charges to the program." The State should have randomly verified participant eligibility by requiring subgrantees to submit eligibility documentation for selected participants for review.

Consequently, the State spent more than \$170,000 on ineligible participants and participants for whom eligibility was not supported. These funds could have been made available to other eligible participants.

Recommendations

We recommend that the Director of the HUD Seattle Office of Community Planning and Development

- 1A. Require that the State reimburse the program \$3,435 from non-Federal funds for the one ineligible participant who exceeded HUD's income level requirement and determine and reimburse any amounts that have been spent since April 2010 for this participant.
- 1B. Require that the State either provide supporting documentation for participants' eligibility or reimburse its program accounts \$166,785 for participants lacking adequate documentation and determine and reimburse any amounts have been spent since April 2010 for these participants.
- 1C. Require the State to develop and implement procedures to ensure that its subgrantees are verifying and documenting participant eligibility in accordance with the HPRP Notice.

RESULTS OF AUDIT

Finding 2: The State Made a Duplicate Payment for HPRP Services

The State made a duplicate payment to one of its subgrantees for HPRP services. This error occurred because the State did not have a mechanism to identify duplicate invoicing by its subgrantees. Consequently, \$7,034 in HPRP funding was not available to serve households in need of assistance.

The State Paid for Identical Charges in November and December 2009

The State made a duplicate payment to one of its subgrantees for HPRP services. One subgrantee submitted invoices that included identical services for five participants in November and December 2009. A subgrantee submitted its December 2009 invoice to the State, which included the same charges that had been submitted on its November 2009 invoice. On December 7, 2009, the State received the November 2009 invoice, which included December's adjustments. The State's staff reviewed the invoice and approved it for payment on December 15, 2009. The State reimbursed the subgrantee on December 16, 2009, for the entire amount on the November 2009 invoice. On January 6, 2010, the State received the subgrantee's December 2009 invoice for services, which also included December's adjustments, billed in November. The State reimbursed the subgrantee on January 11, 2010, for the full amount on the December 2009 invoice.

The State Did Not Adequately Track Amounts It Reimbursed to the Subgrantee

The State did not have a mechanism to identify duplicate invoicing by the subgrantees.

The State's program manager only reviewed the invoice and backup for the type of charges, level of spending, and performance against monthly goals. Staff matched backup documentation provided with the invoices to what was recorded in the client database each month but did not track amounts it reimbursed to the subgrantee by the date on which the services were provided. Consequently, the State did not realize that the subgrantee had submitted an invoice that included costs the subgrantee had incurred and the State had paid in the previous month.

The program manager should have tracked the services and amounts reimbursed to its subgrantees monthly so that a duplicate request for the same service and amount would have been detected.

As a result, \$7,034 in HPRP funding was not available to serve households in need of assistance. When we informed the State of the issue, it immediately initiated action to resolve the problem.

Recommendations

We recommend that the Director of the HUD Seattle Office of Community Planning and Development

- 2A. Require that the State reimburse its HPRP \$7,034 from non-Federal funds, and confirm that the State has done so during audit resolution.
- 2B. Require the State to develop and implement procedures to detect duplicate invoicing from its subgrantee to prevent future duplicate payments.

SCOPE AND METHODOLOGY

We reviewed HPRP expenditures to ensure that the State and its subgrantees disbursed HPRP funding in accordance with Recovery Act requirements. To accomplish our objective, we reviewed applicable laws, regulations, HUD requirements, State requirements, and subgrantee requirements. We also interviewed HUD staff, State staff, and subgrantee staff to obtain further knowledge of program specificity for the subgrantees we visited.

We selected 5 of the State's 28 subgrantees for review of participant case files to ensure that only eligible participants received eligible HPRP services. We selected the three subgrantees with the highest dollar amount spent as of March 10, 2010, one subgrantee because it was awarded the largest grant, and the last subgrantee based on its location to conserve travel costs.

We selected and reviewed representative samples of participant case files at each of the five subgrantees:

- For the subgrantee with the highest dollars spent, we selected the 19 files (out of 44) that included costs for services that we determined to be at high risk for being improperly used.
- For the subgrantee with the highest grant award, we reviewed the files for all of the 14 participants it had served as of the time of our review.
- For the subgrantee with the second highest dollars spent, we randomly selected 29 of its 90 files.
- For the subgrantee with the third highest dollars spent, we randomly selected 21 of 73 files with HPRP services exceeding \$1,400.
- For the last subgrantee, we randomly selected 18 of its 25 completed files.

We reviewed all HPRP invoices that the selected subgrantees submitted to the State to ensure that reimbursements were for HPRP activities. We also reviewed the quarterly performance report for the period ending December 31, 2009, to ensure that it was accurate and submitted on time to HUD.

Our audit period was from October 2009 through March 2010. We performed our audit on site at the State of Washington, Department of Commerce, 128 10th Avenue SW, Olympia, WA; at the offices of the five subgrantees selected for review in Aberdeen, Bremerton, Everett, Kent, and Wenatchee, WA; and at the HUD OIG (Office of Inspector General) office in Seattle, WA, from March 2010 through June 2010.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Controls to ensure that subgrantees follow applicable laws and regulations with respect to the eligibility of HPRP participants and activities.
- Controls to ensure that the State pays only for services provided.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The State did not have adequate controls in place to ensure that its subgrantees followed Federal requirements for the eligibility of HPRP participants (see finding 1).
- The State did not have controls in place to ensure that it did not make duplicate payments (see finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$3,435	
1B		\$166,785
2A	7,034	

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.


2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

<p style="text-align: center;"> STATE OF WASHINGTON DEPARTMENT OF COMMERCE <i>128 - 10th Avenue SW • PO Box 42525 • Olympia, Washington 98504-2525 • (360) 725-4000</i></p> <p>August 17, 2010</p> <p>Ronald J. Hosking Regional Inspector General of Audit U.S. Department of Housing and Urban Development 909 First Avenue, Suite 126 Seattle, Washington 98104-1000</p> <p>Dear Mr. Hosking:</p> <p>Enclosed are our comments to the audit of the Washington State Department of Commerce Homeless Prevention and Rapid Re-Housing Program (HPRP). For the majority of findings, the Department of Commerce disagrees with the auditor's findings and we have provided additional detail and information in the enclosed document.</p> <p>If you have any questions on the materials provided, please contact Kathy Kinard, Program Manager, at (360) 725-2939 or by email at Kathy.Kinard@commerce.wa.gov, or Annie Conant, Managing Director, at (360) 725-2919 or by email at Annie.Conant@commerce.wa.gov.</p> <p>Sincerely,</p> <p>Dan McConnon Assistant Director</p> <p>Enclosure</p> <p>cc: Jack Peters, Director, Office of Community Planning and Development (OCPD) Steven Washington, Deputy Director, Seattle Office of Public Housing, OCPD Jan Marie Ferrell, Deputy Director, Department of Commerce John Thomas, Internal Auditor, Department of Commerce</p>
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Department of Commerce
Innovation is in our nature.

Comment to the Regional Inspector General
on the Audit of the federal
American Recovery and Reinvestment Act of 2009

Homeless Prevention
and Rapid Re-Housing Program

Grant No. S09-DY-53-0001

August 17, 2010



Comment 1

Finding 1: The State paid for ineligible and unsupported participants - four participants were not eligible for the program

Participant Number 1

The Audit Report states: One participant's household income of \$51,108 exceeded 50 percent of the county's area median income of \$48,900 for a six-member household. The income calculation used did not include the income of both of the adults in the household. The gross income calculation for both adults indicated on the provider screening tool was higher than the allowable area median income.

Comment 2

Commerce's Response: We disagree with this Audit Report Finding. The calculation used should not include the husband's income because, at enrollment, the husband had not yet received any wages.

After reviewing the participant case file, we note the household is 6 persons and were determined eligible for assistance on December 15, 2009.

- Pay stub indicates wife's employment wage on the date of eligibility was \$816.64 per month for an annual income of \$9,799.68.
- The 2009 area median income for a six-member household at 50 percent of the area median income for the participant's county is \$48,900.
- It was noted on the sub grantee's income eligibility form that the husband was to start a job shortly after entering the program; his projected income was not counted at program entry because he had not received any wages and subsequently had no pay stubs for proof of income because had he not started working.

HUD Guidance states that grantees must use current gross income:

- ***Gross Income is the amount of income earned before any deductions (such as taxes and health insurance premiums) are made.***
- ***Current Income is the income that the household is currently receiving at the time of application for HPRP assistance.***
- ***The definition of income for the HPRP program reflects an applicant household's income at the time of application (see definition of "Current Income" above). Accordingly, documents and information collected to verify income should be recent.***

Participant Number 2

The Audit Report states: One participant's income did not meet the sub grantee's income level policy requirement to be at or below 30 percent of the county's area median income. This participant received \$562 in monthly benefits through Temporary Assistance to Needy Families and \$926 in monthly employment wages. Therefore, the participant's total annual income of

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Comment 3

\$17,859 exceeded the area median income for a three-member household of \$14,700 or the 30 percent of the area median income limit the subgrantee required other households to meet.

Commerce's Response: We disagree with this Audit Report Finding. We disagree the household income was \$926 in monthly employment wages.

After reviewing the participant file, we note the household is 3 persons and were determined eligible for assistance on February 3, 2010. At the time of program entry the participant was a homeless single parent with two children living in an emergency shelter.

- The participant's monthly benefit through *Temporary Assistance to Needy Families* is \$562. Annualized income from TANF is \$6,744 ($562 \times 12 = 6744$).

HUD Guidance states that grantees must annualize wages and periodic payments:

When calculating income based on hourly, weekly or monthly payment information, add the gross amount earned in each payment period that is documented and divide by the number of payment periods. This provides an average wage per payment period. Depending on pay periods used by the employer or the schedule of periodic payments, the following calculations convert the average wage into annual income: Semi-Monthly Wage (twice a month) multiplied by 24 semi-monthly periods

- Pay stubs indicate the participant's employment wage for the following two work week periods as \$196.65 for the period 11/22/09-12/05/09 and \$474.35 for the period 12/06/09-12/19/09. Annualized income from employment is \$8,052 ($196.65 + 474.35 = 671/2 = 335.50 \times 24 = 8,052$)
- The annualized TANF benefit (\$6744) and the employment wage (\$8052) indicate the total annual income for the participant is \$14,796.00.
- The 2009 area median income for a three-member household at 30 percent of the area median income for the participant's county is \$14,700. Participant's income is over by \$96.00.

The sub grantee stated they were using the 2009 area median income chart at the time they assisted the applicant household and because they would be able to move the mother and her two children from a homeless shelter into a house, the supervisor made an exception to their policy of only serving households at 30 percent of the area median income (the applicant household was \$96 over income) and approved rent payment. The sub grantee stated they inadvertently did not make a note about approving the exception to their policy in the participant case file.

Comment 4

While, at first glance it might appear the household did not meet the sub grantee's more stringent policy, this household was enrolled in February 2010 and subsequent 2010 income limits indicate the participant household was below 30% area median income. The 2010 area median income for a three-member household at 30 percent of the area median income for the participant's county is \$14,950. Participant was eligible.

NOTE: While the sub grantee set a policy that they would only serve participants whose income was 30 percent or below area median income, the participant was also income eligible according to HUD's HPRP Income Eligibility requirement. In other words, if this participant was being served in another county she would have met the 50 percent or below area median income requirement.

Participant Number 3

The Audit Report States: For one participant household, the case worker selected the "severe housing cost burden" risk factor. However, the participant's lease amount was \$700 per month and the combined household income was \$2,089 per month. These amounts did not qualify as a "severe housing cost burden"... Consequently the file did not document that the participant qualified under both of the two risk factors.

Comment 5

Commerce's Response: We disagree with this Audit Report Finding. Commerce only requires risk factors to be noted in case files, no further documentation is required. We also disagree that the household income was \$2,089 per month.

The Commerce HPRP Guidelines state the following:

- ***Case notes about these risks combined with verification and documentation of the two required circumstances [1. no subsequent housing options, 2. no support networks and no financial resources] above should indicate that their loss of housing is imminent without assistance.***

Comment 6

After reviewing the participant file, we note the household is 2 persons who were determined eligible for assistance on November 30, 2009. At the time of program entry, the participant was an unemployed single parent facing eviction.

Comment 7

Commerce believes the case manager clearly identified in the case file three risk factors for the participant indicating that their loss of housing was imminent without HPRP assistance. This more than meets Commerce's requirements.

Comment 8

- At time of program entry the participant was unemployed and receiving a weekly unemployment check in the amount of \$366. The Employment Security Department unemployment record showed that the client's balance remaining was \$732.00. Because the client's benefits were going to end in two weeks, "extremely low income" and "sudden significant loss of income" are two eligible risk factors.

Comment 9

- The client received a "three day pay or vacate notice" dated November 30, 2009. The "eviction notice" was an additional Risk Factor.

NOTE: If the Auditor's income calculation was correct "the combined household income was \$2,089 per month," this participant would not have been income eligible for the program.

Comment 5, 8

- The total annual income for the participant is \$ 17,568. The 2009 area median income for a two-member household at 50 percent of the area median income for the participant’s county is \$22,800. This household is clearly income eligible.

Participant Number 4

The Audit Report States: The other participant had income of less than 50 percent of area median income, but the case file identified only one risk factor instead of the required two.

Commerce’s Response: We disagree with this Audit Report Finding.

Comment 10

After reviewing the participant file, we note the household is 3 persons who were determined eligible for assistance on November 4, 2009.

The sub grantee’s case notes indicate the following two risk factors for the participant household:

Comment 11

- Risk Factor: “recent health crisis that prevented household from meeting its financial responsibilities” – case notes indicate that the participant was injured and had surgery in October. Because he could not work the household lost income which resulted in a late payment for rent.

Comment 12

- Risk Factor: “sudden and significant loss of income” – income verification documentation and notes indicate that the employment wage for the injured program participant on pay dates 9/4 and 9/18 was \$2460.51. The only income for October is Time Loss compensation of \$560.70.

Finding 1 Recommendation:

I. A. Auditor’s Recommendation: Require that the State reimburse the program \$9,401 from non-federal funds for the four ineligible participants and determine and reimburse any amounts that have been spent since April 2010 for these participants.

Comment 13

Commerce’s Response: We disagree with this Audit Report Recommendation. We asked the Auditor for the client names for the four case files determined ineligible and requested photo copies of those files from the sub grantees. After reviewing the four case files, Commerce does not agree that the four participants were ineligible.

I. B. Auditor’s Recommendation: Require that the State either provide supporting documentation for participant’s eligibility or reimburse its program accounts \$171,071 for participants lacking adequate documentation and reimburse any amounts [that] have been spent since April 2010 for these participants.

Commerce’s Response: We will work with the sub grantees the Auditor identified and will request any and all documentation that impact client eligibility. If the sub grantees cannot

Comment 14

produce the documentation required, Commerce will require reimbursement for grant amounts expended on ineligible participants.

However, we have significant concerns over the Auditor’s interpretation of the 1) Commerce Risk Factor requirement, and 2) HPRP assessment/verification of no housing option and no support networks.

1. Commerce Risk Factor requirement

Background: HUD recommended grantees consider several risk factors in order to ensure the applicants to the program would be homeless but for the HPRP assistance. While HUD did not require grantees to use their recommended risk factors, Commerce required that HPRP case files include notes about two risks that further supported the sub grantee’s decision to assist the participant with HPRP funds.

The Commerce HPRP Guidelines state the following:

- ***Case notes about these risks combined with verification and documentation of the two required circumstances [1. no subsequent housing options, 2. no support networks and no financial resources] above should indicate that their loss of housing is imminent without assistance.***

The Auditor states in *Appendix C Table of Deficiencies of Finding 1* “lack of evidence” or “documentation” for risk factors for 13 files.

Comment 15

Commerce’s response: The Commerce Guidelines do not require “evidence” or “documentation” of risk factors; case managers are required to “note” two risk factors in the participant case files. We are concerned that the Auditor misunderstood the Commerce HPRP Guidelines and developed an inaccurate conclusion and subsequent Finding.

- 2. HPRP assessment/verification of no housing option and no support networks.** This is a HUD HPRP eligibility requirement that can be open to different interpretations. We disagree with the Auditor’s interpretation and look to HUD for further guidance so we can better direct our sub grantees on the requirements.

The initial HUD Notice for HPRP provided the following Guidance in March 2009:

- *HUD allows grantees significant discretion in program design and operation while targeting those who are most in need of temporary homelessness prevention and rapid re-housing assistance. When establishing local programs, grantees should consider how their programs will identify eligible program participants.*

The household must be either homeless or at risk of losing its housing and meet both of the following circumstances: (1) no appropriate subsequent housing options have been

- identified; AND (2) the household lacks the financial resources and support networks needed to obtain immediate housing or remain in its existing housing.

A year later in March 2010 HUD provided updated Guidance with more clarification and examples. Note HUD recognizes the initial assessment remains subjective.

- In addition to assessing and documenting income and the current housing situation of applicant households, grantees and subgrantees must also assess whether the household would be homeless but for HPRP assistance. **This is a critical piece of determining eligibility for HPRP and can be the most subjective.**
- This includes looking at other housing options (i.e., could they stay with a family member until they are able to move into a new unit or get their first paycheck?), support networks, and other financial resources to obtain immediate housing or remain in current housing.

Commerce’s concern lies in the extent at which assessing “housing options” and “support networks” must be documented/verified and what that would look like in a participant case file.

Comment 16

- A. For example, if a family is living in a homeless shelter and a case manager is able to find them an affordable unit, is the case manager required to then identify and interview the household’s other family members, friends/support networks and then document and verify they could not support the homeless household before the sub grantee could assist?
- B. For example, if a family has an eviction notice and can stay in their unit with rental assistance, is the case manager required to identify and interview the household’s other family members, friends/support networks ability to either let the household move in with them or verify they could not support the homeless household by paying their rent before assisting them? (And why would you ever move a household from their home to double up with another family when that in itself is a HUD risk factor for homelessness?)

1. C. Require the State to obtain eligibility documents from its sub grantees for randomly selected participants and review those documents to verify the eligibility of participants.

Comment 17

Commerce’s Response: We are already exercising due diligence in randomly reviewing documents to verify participant eligibility.

The State has randomly selected participant case files and reviewed eligibility documents on technical assistance (TA) visits to sub grantees. These visits occurred after the grant started in September 2009 and continued for several months until official monitoring site visits began. (Many sub grantees did not begin actively serving clients until late fall and early winter.) At each TA visit, random files were reviewed to verify the eligibility of participants. Currently we review participant files during on-site monitoring. Whenever there is missing or incomplete documentation, Commerce requires that sub grantees either produce the evidence or pay back the financial assistance made on behalf of the client.

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In addition to verifying participant eligibility during site visits, Commerce employs several additional methods to ensure grant compliance.

Comment 18

- Daily we review sub grantee participant data in HMIS to ensure that all of the required household data elements are captured and HPRP specific services are recorded before approving reimbursement for expenses. Sub grantees are required to send us a report from their bookkeeper that lists the participants served that month with Financial Assistance. Commerce reviews that list with what the sub grantee case manager has recorded in HMIS to ensure information has been recorded correctly and matches the reimbursement request. Commerce does not pay invoices until all client data in HMIS is accurate.

Comment 19

- Weekly and monthly, Commerce reviews grantee projections of dollars spent and households served against actual dollars spent (from invoice requests) and households served (from HMIS). Projections were established to ensure grantees were on track to spend 60% of their allotted dollars within the first two years of the grant, per the HPRP grant requirement. Actual dollars spent and households served are monitored closely and any deviation greater than 10% of projections is followed up by Commerce staff with appropriate remedial action. Remedial actions thus far have included increased HMIS training, increased HPRP technical assistance, bi-weekly written documentation dissemination, and budget reductions.

Finding 2: the State made duplicate payment for HPRP services

The Audit Report States: The State made a duplicate payment to one of its subgrantees for HPRP services.

Commerce's Response: We agree with this finding. The day the Auditor notified us of the potential overpayment we suspended the sub grantee's grant activities and began investigating immediately. After reviewing back up documentation, the sub grantee verified the duplicate payment for December 2009. Commerce verified that duplicate payments were not made to landlords, but instead five Prevention Financial Assistance charges for rent were replicated on a revised invoice. We reduced the sub grantee's next invoice by the \$7,034 overpayment.

Finding 2 Recommendations:

2. A. *Require the State reimburse its HPRP [grant] \$7,034 from non-federal funds.*

Comment 20

Commerce's Response: We required the sub grantee to reduce their next reimbursement request to us by the December 2009 overpayment of \$7,034. The overpayment has already been reconciled.

Comment 21

2. B. Require the State to develop and implement procedures to detect duplicate invoicing from its sub grantees to prevent future duplicate payments.

Commerce's Response: When we initially received the grant, we developed several HPRP specific internal controls to review sub grantee invoices, detailed expenditure information and HMIS client data to ensure sub grantees were charging eligible costs and activities to the grant.

Invoice and detailed expenditure review:

1. Sub grantee invoices must also include an accounting ledger, spreadsheet or some other documentation from the bookkeeper which identifies the HPRP participant's name, the amount of financial assistance made on their behalf, and who it was paid to (landlord, utility company etc).

HMIS Review:

1. The information from the bookkeeper is then reviewed against what the sub grantee case managers have entered into HMIS to cross check that financial assistance payment information has been recorded accurately.

Payment on the sub grantee reimbursement requests are not made until the invoice, expenditure detail and HMIS review are reconciled. Early on in the grant program we rarely if ever paid an invoice the first time it was received. Even almost a year into the grant, only about half of the sub grantee monthly invoices have this information complete and we continue to withhold payments until the information is reconciled.

Each month Commerce staff have scheduled site visits with one or two sub grantees. All twenty eight sub grantees will receive at least one on site visit during the grant period. At each site visit, fiscal source documentation to substantiate charges is reviewed. We continue to look at ways to improve our systems with the resources we have available to ensure we are in compliance with HUD's grant terms and conditions.

OIG Evaluation of Auditee Comments

We made minor changes to the Report to reflect the Office of Community Planning and Development's comments.

- Comment 1** The finding was reworded to reflect that one participant did not meet HUD's requirement and three participants did not meet the State's or its subgrantee's stricter requirements.
- Comment 2** The screening tool intake form for the HPRP program indicated the husband was hired as of the intake date for a full-time position (forty-hour work week, \$3459/month). This was shown in both the Household Income and the Employment History sections of the intake form. If the case worker had completed a verification of employment, the verification would have confirmed the husband's *current* employment and *current* income. If the husband was not earning income, the case file would have needed a self-declaration of zero income as all adults within the household need income verification. This was not included in the case file. Timing of wages and cash flows does not determine participant's gross current income. In addition, the participants were not homeless, and they did not have an eviction notice.
- Comment 3** Using the same methodology as indicated in the cited HUD guidance within Commerce's comments, the gross income sum should be divided by the number of payment periods to find the average pay and then multiply by the number of periods in a year for annual income. The guidance also states that bi-weekly wages should be multiplied by 26 pay periods. Thus, since the pay stubs clearly indicated bi-weekly payments, annual income from employment wages for this participant of \$8723 ($\$335.50 * 26$) plus annual TANF benefits received of \$6744 ($\$562 * 12$) put the participant's income at \$15,467. This amount was greater than the subgrantee's policy for a participant's income to be less than 30 percent of the area median income for a three-person household in both 2009 and 2010 (\$14,700 and \$14,950 respectively).
- Comment 4** The area median income limit for 2010 was not an appropriate measure of income eligibility for the participant because the participant was admitted into the program in February 2010, but the FY2010 income levels were not effective until May 14, 2010. Thus, the participant was not eligible.
- Comment 5** It appears Commerce misunderstood the finding. The finding was that the participants did not meet the "severe housing cost burden" with income at \$2,089, not that the subgrantee did not document the risk factor. According to Commerce's Program Guidelines, to qualify under the severe housing cost burden risk factor, housing costs had to have been greater than 50 percent of income. Consequently, housing costs would have needed to be \$1,045 or more per month.

The participant did not qualify because the participant's housing cost was only \$700. Thus the participant did not meet the "severe housing cost burden" risk factor.

In addition, Commerce disagreed with the Auditor's income calculation. However, it appears Commerce reviewed a different case file (see comment 8).

- Comment 6** It appears that Commerce reviewed a different case file. The file documentation did not support Commerce's assertion that at the time of program entry the participant was an unemployed single parent facing eviction. The case file revealed a three-person household consisting of two adults with previous and current employment, and a child.
- Comment 7** It appears that Commerce reviewed a different case file. The documentation did not support Commerce's assertion. The case file revealed that the participant met only one risk factor for recent traumatic life event.
- Comment 8** It appears that Commerce reviewed a different case file. The documentation did not support Commerce's assertion. The case file revealed the participant was employed. There were six paystubs of the co-participant with a weekly average of \$201.84 (52 weeks * \$201.84 = \$10,495.68 annual income) and bi-weekly time-loss benefits of \$560.70 (26 pay periods * 560.70 = \$14578.20 annual income). Therefore, total household annual income is \$25,073.88 and total monthly income is \$2,089 ($\$25,073.88/12 \text{ months} = \$2,089.49$).
- Comment 9** It appears that Commerce reviewed a different case file. The documentation did not support Commerce's assertion. The case file did not include an eviction notice.
- Comment 10** It appears that Commerce reviewed a different case file. The documentation in the case file did not support Commerce's assertions. The intake application and case notes revealed a two-person household, the participant and a child. This was also substantiated in Commerce's homeless management information systems database.
- Comment 11** It appears that Commerce reviewed a different case file. Case notes did not indicate that the participant was injured and had surgery. Case notes revealed that the participant was receiving unemployment benefits since November 30, 2008, due to lack of work. Thus, the risk factor that Commerce identified as a "recent health crisis that prevented household from meeting its financial responsibilities" was not applicable to this case file.
- Comment 12** It appears that Commerce reviewed a different case file. Case notes did not indicate that the participant experienced a sudden and significant loss of income. The unemployment benefit records revealed that the participant consistently received an average weekly benefit of \$347 from November 2008 to November

2009. Thus the risk factor that Commerce identified as a “sudden and significant loss of income” was not applicable to the case file reviewed.

- Comment 13** The case files reviewed during the audit did not support Commerce’s assertions. Although OIG provided client names for the four case files determined ineligible, for Participants 3 and 4, Commerce did not review the proper case files. We maintain the participants were ineligible.
- Comment 14** OIG followed Commerce’s risk factor requirements and HPRP’s requirement for assessment and verification of no housing options and no support networks as established by HUD’s Housing Status: Eligibility Determination and Documentation Requirements. HUD’s requirements clearly defined the required documentation and process for housing options and resources, financial resources, and support networks. The requirement explicitly stated that grantees/subgrantees *must verify and document the assessment* that no other appropriate subsequent housing options were available, and the lack of financial resources and support networks of the participant.
- Comment 15** Commerce’s response stated, “Commerce required that HPRP case files include notes about two risks *that further supported* the subgrantee’s decision to assist the participant with HPRP funds.” Case files reviewed revealed that risk factors were not substantiated or consistent to support the subgrantee’s decision to assist the participant with HPRP funds as required by Commerce. When the audit stated that there was a “lack of evidence” or “documentation” of the risk factors, there was either no mention in the file of the required risk factor(s) or other information clearly showed the participant did not qualify under the selected risk factor.
- Comment 16** HUD’s Housing Status: Eligibility Determination and Documentation Requirements states that the case manager must verify and include an assessment summary or other statement in the case file indicating that the applicant has no other appropriate housing options, lack of financial resources, and support networks. For example, in one case we reviewed, the participant indicated that s/he had strong family ties and support network on the intake application. The case manager should then have verified and assessed why the participant was not relying on his/her family for support. The case manager would then need to document the reason and follow up accordingly. We visited one subgrantee where a case manager called the parents to confirm that they were no longer going to support their adult child.
- Comment 17** Commerce’s HPRP program manager told us that Commerce was reviewing case files on a random basis to verify eligible expenditures and not participant eligibility. Commerce did not plan to conduct its on-site monitoring until Fall 2010, at which time Commerce would then review case files for participant program eligibility. It wasn’t until the exit conference that Commerce’s HAU managing director and its internal auditor told us that it is beginning to look at participant eligibility as well as at the eligibility of expenditures.

- Comment 18** OIG appreciates Commerce's effort to review HMIS data daily as it may meet Commerce's other objectives. However, these actions are ineffective in assessing participants' eligibility. A reviewer would not be able to determine whether a case manager had properly verified and documented the eligibility of an HPRP applicant prior to providing HPRP assistance in HMIS. In addition, a reviewer would not be able to confirm that the required documentation is properly maintained in each participant's case file.
- Comment 19** Again, OIG appreciates Commerce's effort in adopting these actions as they may meet Commerce's other objectives; however, projection reviews do not allow Commerce to determine whether a subgrantee is providing HPRP assistance to eligible participants.
- Comment 20** HUD's Office of Community Planning and Development will need to verify, during audit resolution, that Commerce's HPRP was reimbursed for the overpayment and that the funds were not Federal funds.
- Comment 21** The procedures identified in Commerce's comments were in place during the audit. There are weaknesses in the current procedures since they did not prevent or detect the duplicate invoice. Therefore, Commerce must further evaluate its current practice, and develop and implement procedures that will prevent or detect duplicate invoicing.

Appendix C

TABLE OF DEFICIENCIES FOR FINDING 1

Deficiencies	Number of case files per subgrantee that did not comply with requirements:					Total # of case files
	A	B	C	D	E	
1. Lack of assessment/verification of no other housing	14	4	8	16	9	51
2. Lack of assessment/verification of insufficient financial support	14	4		3		21
3. Lack of assessment/verification of no support network	14	4	4	16	10	48
4. Lack of documentation of homelessness				1	2	3
5. Lack of documentation of income verification			5	4		9
6. Lack of coapplicant's verification/assessment of needs		1				1
7. Lack of eviction notice		2	2			4
8. Lack of eviction notice before HPRP assistance			2			2
9. Improper issuance of motel/hotel voucher		2			2	4
10. Risk factors not substantiated or inconsistent		3	8			11
11. Lack of documentation of high medical bills			1			1
12. Lack of documentation to show that family/friends were providing shelter		2	3			5
13. Lack of verification of employment loss		1				1
14. Lack of jail release form		1				1
15. Staff certification not dated or signed & dated by supervisor		3	1			4
16. Staff certification signed after receipt of HPRP benefits				3		3
17. Backdated staff certification		2				2
18. Case manager signed participant's verification of homelessness form in place of third party		3				3
19. Self-declaration not signed by participant			2			2
20. Lack of lease agreement or complete lease agreement		1	1		1	3
21. Lack of documentation of assistance calculation		7				7
22. Required documents signed after certification			2			2
23. Incomplete financial documentation			3			3
24. Inspections not completed before lease agreements				2	1	3
25. Income verification not completed before certification & assistance began				1		1
26. Lack of housing inspection documentation				1		1